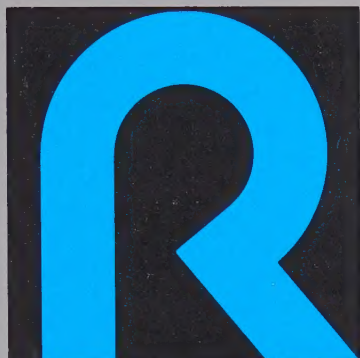
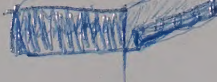




revenue properties company limited

1977

annual report

revenue properties company limited

DIRECTORS

Richard A. Bain, Toronto,

Partner, Siegal, Fogler, barristers and solicitors

Watson W. Evans, Toronto,

Retired

Maxwell Goldhar, Toronto,

President, Revenue Properties Company Limited

Paul W. Hellen, Toronto,

Solicitor, Revenue Properties Company Limited

Ken Kelman, Toronto,

Vice-President, First Canada Financial Corporation Limited

Gurston I. Rosenfeld, Toronto,

President, Guardian Growth Financial Services Limited

C. Harris Tod, C.A., Toronto,

Vice-President, Revenue Properties Company Limited

Sara Tuberman, Toronto,

Treasurer, Revenue Properties Company Limited

Michael G. Wright, Montreal,

President, Les Aménagements Revcon

OFFICERS

President: Maxwell Goldhar

Vice-President: C. Harris Tod, C.A.

Secretary: Richard A. Bain

Treasurer and Assistant Secretary: Sara Tuberman

Controller: Peter W. Grater

AUDITORS

Thorne Riddell & Co.

COMMON SHARES

Registrar & Transfer Agent

National Trust Company, Limited

Co-Registrar & Co-Transfer Agent

The Canadian Bank of Commerce Trust Company

SENIOR DEBENTURES

Trustee: The Royal Trust Company

SUBORDINATED DEBENTURES

Trustee: National Trust Company, Limited

HEAD OFFICE

44 King Street West, Toronto, Ontario M5H 3A3

revenue properties company limited

annual report

CONTENTS

	PAGE
LETTER TO SHAREHOLDERS	2
CONSOLIDATED BALANCE SHEET	4
CONSOLIDATED STATEMENT OF INCOME	5
CONSOLIDATED STATEMENT OF DEFICIT	6
AUDITORS' REPORT	6
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION ..	7
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	
1. Summary of accounting policies	8
2. Revenue producing real estate	10
3. Construction in progress	10
4. Land held for and under development	10
5. Surplus land	11
6. Accounts and mortgages receivable	11
7. Other assets	12
8. Cash	12
9. Mortgages payable on revenue producing real estate	12
10. Other loans and mortgages payable	13
11. Sinking fund debentures	13
12. Bank indebtedness	15
13. Deferred income	16
14. Capital stock	17
15. Lease and similar obligations	18
16. Contingent liabilities	18
17. Legal proceedings	19
18. Consolidated statement of income	19
19. Quarterly financial data (unaudited)	20
20. Unused financing commitments	20
21. Income taxes	21
22. Partnership agreement	22
23. 1977 and 1976 share trading (unaudited)	22
24. Reclassification of 1976 comparative figures	22
FIVE YEAR SUMMARY OF OPERATIONS	23
SUMMARY OF PRINCIPAL HOLDINGS	24

revenue properties company limited

TO THE SHAREHOLDERS:

Your Company suffered a loss of \$2,835,000 or 20¢ per share for 1977 as compared with a restated profit of \$1,126,000 or 8¢ per share in 1976. This loss was after an unusual item of provision for loss on real estate of \$3,927,000 before taxes, representing mainly the reduction in book value of surplus lands in the Company's land assembly in Uxbridge, Ontario. In 1977 the Company decided that such lands should be sold without further development and that no further interest and carrying charges would be capitalized on them.

During 1977 the Company adopted the sinking fund method of depreciation. (See note 1 (d)). The effect of the change in method in 1977 is to reduce the depreciation expense for the year by \$699,000 and to increase the cost of sales of Revenue Producing Real Estate by \$378,000.

Rental income has continued to increase from \$12,171,000 in 1976 to \$12,667,000 in 1977 despite the sale of revenue producing buildings. Many of the buildings sold have operated with 'net' leases while new buildings have mainly been residential rental buildings with gross leases. For this reason gross profit as a percentage of rental income has declined from 31.8% in 1976 to 28.5% in 1977.

We are continuing our policy of replacing our older industrial buildings with new buildings. Accordingly, in 1977 we sold one revenue producing building and 50% of the St. John's City Hall and completed two new industrial buildings in Boucherville, Quebec. We also completed a small shopping plaza in Oakville, Ontario. Sales of revenue producing real estate generated a profit of \$67,000 in 1977 as compared to a restated profit of \$1,075,000 in 1976.

I commented in my report at this time last year that it seemed that many people were reluctant to make a large commitment to a new house purchase. Unfortunately, that attitude persisted in 1977 and the housing market in the Toronto area continued to be depressed and sales during 1977 were disappointing. Sales of houses in the Boucherville, Montreal area were also slow and were significantly affected by a strike which prevented our obtaining the expected number of serviced lots. Since the year end services have been installed and sales should improve considerably.

The income tax act of Canada offers tax-shelter opportunities to investors in Multiple Unit Residential Buildings or MURB's. Your company has sold 22 townhouses in Oakville and approximately one half of a high-rise apartment building in Toronto on this basis. We are at the moment constructing two more buildings containing approximately 455 apartments which we also intend to sell as MURB's. The sale of MURB's entails guarantees of future income to the purchasers for varying periods of time, as described in note 1 (e) (ii).

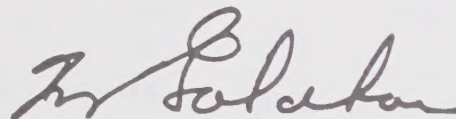
At the beginning of 1977 we entered into a partnership with M. G. Wright Construction Limited. The Company has a 75% interest in this partnership which acquired from the Company two revenue producing buildings, construction in progress, and land held for and under development in the province of Quebec, and assumed the liabilities attached thereto. The partnership will develop, construct and retain or sell real estate in the Province of Quebec. During 1977 the partnership sold 86 houses in its development in Boucherville and has a further 48 houses under construction at December 31, 1977.

Land development continues to be difficult. Toward the end of 1977 the official plan was signed by the Minister on our lands in Vaughan Township which is on the northern boundaries of Metro Toronto. This project consists of 215 acres, and it appears likely that we will be servicing towards the end of 1978. We have submitted a Draft Plan of 179 acres of this project. We have also sold the balance of the lands in our Oakville joint venture, and as the land is presently being serviced, we anticipate that completion of the servicing will permit us to recognize the sale in the third quarter of 1978.

We have found difficulty in finding suitable projects for our joint venture in the United States as there is increasing competition for the acquisition of real estate investments in that market. During 1977 we arranged three projects in Atlanta for investors, involving two multiple tenancy industrial buildings and a 70,000 sq. ft. office building.

The economic climate in Canada continues to be uncertain. There are recent signs however that the structural problems in the economy are being corrected primarily through our lower Canadian dollar.

On behalf of the Board of Directors

A handwritten signature in dark ink, appearing to read 'Max Goldhar', written in a cursive style.

Maxwell Goldhar,
President.

Toronto, Canada
March 31, 1978

revenue properties company limited

(Incorporated under the laws of Ontario)

CONSOLIDATED BALANCE SHEET

DECEMBER 31

(1976 as restated)

ASSETS

	Note No.	1977 \$000's	1976 \$000's
Revenue producing real estate	2	47,281	39,769
Construction in progress	3	11,057	18,772
Land held for and under development	4	28,081	42,508
Surplus land	5	7,443	—
Accounts and mortgages receivable	6	13,976	12,978
Deferred currency adjustment	11	1,268	1,608
Other assets	7	2,573	978
Cash	8	2,027	3,283
		113,706	119,896

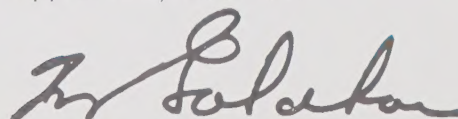
LIABILITIES

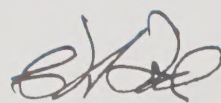
Mortgages payable on revenue producing real estate	9	36,356	27,740
Other loans and mortgages payable	10	22,183	31,017
Sinking fund debentures	11	7,973	9,866
Bank indebtedness	12	12,141	11,308
Accounts payable and accrued liabilities		5,982	6,731
		84,635	86,662
Deferred income	13	3,935	3,461
Deferred income taxes	21	3,669	5,471
		92,239	95,594

SHAREHOLDERS' EQUITY

Capital stock	14	27,324	27,324
Deficit		(5,857)	(3,022)
		21,467	24,302
		113,706	119,896

Approved by the Board:

 , Director

 , Director

CONSOLIDATED STATEMENT OF INCOME

YEARS ENDED DECEMBER 31

(1976 as restated)

	1977 \$000's	1976 \$000's
Rental Operations		
Rental income	12,667	12,171
Property operating expenses	8,621	7,912
Depreciation	436	389
	<u>9,057</u>	<u>8,301</u>
Gross profit	3,610	3,870
Revenue producing real estate		
Sales	3,475	4,218
Cost of sales	3,408	3,143
	<u>67</u>	<u>1,075</u>
Gross profit	67	1,075
Construction, land held for development and surplus land		
Sales	14,513	16,541
Cost of Sales	14,263	15,398
	<u>250</u>	<u>1,143</u>
Gross profit	250	1,143
Interest and other income	1,403	937
	<u>5,330</u>	<u>7,025</u>
Gross profit from operations	5,330	7,025
Deduct: Interest expense less amounts capitalized		
(Note 18 (a))	4,210	3,447
Administration and general expenses	1,956	1,761
Discount on sale of mortgages	—	175
Net transfer from deferred income (Note 13)	(100)	(64)
Provision for loss on real estate	3,927	—
	<u>9,993</u>	<u>5,319</u>
Income (loss) before income taxes and extraordinary item	(4,663)	1,706
Income taxes (Note 21)	(1,623)	721
	<u>(3,040)</u>	<u>985</u>
Income (loss) before extraordinary item	(3,040)	985
Extraordinary item		
Deferred income tax reduction on recognition of prior years' timing differences	205	141
	<u>(2,835)</u>	<u>1,126</u>
Net income (loss)	(2,835)	1,126
Earnings (loss) per share (Note 18 (b))		
Before extraordinary item	(21.5¢)	7.0¢
After extraordinary item	(20.0¢)	8.0¢

revenue properties company limited

CONSOLIDATED STATEMENT OF DEFICIT

YEARS ENDED DECEMBER 31

	1977 \$000's	1976 \$000's
Deficit at beginning of year		
As previously reported	5,768	6,814
Reduction in deficit due to change in accounting policy for depreciation	2,746	2,666
As restated	3,022	4,148
Net income (loss)	(2,835)	1,126
Deficit at end of year	5,857	3,022

AUDITORS' REPORT

To the Shareholders of
Revenue Properties Company Limited

We have examined the consolidated balance sheet of Revenue Properties Company Limited and subsidiaries, joint ventures and partnership as at December 31, 1977 and 1976 and the consolidated statements of income, deficit and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies, joint ventures and partnership as at December 31, 1977 and 1976 and the results of their operations and the changes in their financial position for the years then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change, with which we concur, in depreciation policy as described in note 1(d), on a consistent basis.

Toronto, Canada
March 23, 1978

Thorne Riddell & Co.
Chartered Accountants

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEARS ENDED DECEMBER 31

(1976 as restated)

SOURCE OF FUNDS	1977 \$000's	1976 \$000's
Cash flow from operations	—	2,032
Net changes in:		
Mortgages receivable	338	1,777
Bank loans	1,447	6,753
Loans and mortgages payable	—	5,177
Investment in revenue producing real estate and revenue producing real estate under construction	1,914	—
Land held for and under development and surplus land	3,057	—
	<u>6,756</u>	<u>15,739</u>
APPLICATION OF FUNDS		
Cash used in operations	327	—
Net changes in:		
Loans and mortgages payable	218	—
Sinking fund debentures	1,893	3,597
Other assets and liabilities	2,677	3,376
Investment in revenue producing real estate and revenue producing real estate under construction	—	2,578
Land held for and under development and surplus land	—	4,258
Other projects under construction	2,283	1,640
	<u>7,398</u>	<u>15,449</u>
INCREASE (DECREASE) IN FUNDS	(642)	290
	<u>6,756</u>	<u>15,739</u>
Funds are defined as:		
Cash	2,027	3,283
Bank indebtedness, unsecured	1,004	1,618
	<u>1,023</u>	<u>1,665</u>

revenue properties company limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1977 AND 1976

Throughout these notes "the Company" refers to Revenue Properties Company Limited, its consolidated subsidiaries, joint ventures and partnership unless the context indicates otherwise.

1. Summary of accounting policies

The Company is a member of the Canadian Institute of Public Real Estate Companies. The Company's accounting policies and its standards of financial disclosure are substantially in accordance with the recommendations of that Institute.

(a) *Principles of consolidation*

The consolidated financial statements include the following:

- the accounts of all companies in which the Company holds more than 50% of the voting equity. The principal active subsidiaries are :

	Ownership %
One Thirty One Bloor West Limited	100
Revcon Developments Limited	100
Revenue Properties Central Developments Limited	100

- the accounts of all participating ventures in which the Company holds 100% of the land held for and under development and for which the Company is responsible for all financing required. The Company's participation in net income or losses of these ventures varies from 75% to 90%.
- the proportionate share of the assets, liabilities, revenues and expenses of unincorporated joint ventures and partnership.

(b) *Capitalization of costs*

- (i) The Company follows the policy of capitalizing direct carrying costs such as mortgage interest, realty taxes and other related costs to land held for and under development and construction in progress. With respect to construction of revenue producing real estate, the construction period is generally considered to have ended when a rental occupancy of approximately 70% has been achieved provided that the project has attained a breakeven position within a reasonable length of time.
- (ii) The Company also capitalizes that portion of interest on general borrowings considered applicable to land held for and under development and construction in progress.

(c) *Income recognition*

(i) Sales of housing and land

Income from these transactions is recognized as follows:

- | | |
|-------------------|---|
| House sales | — at the date when title passes, at least 5% of the purchase price has been received, and all material conditions have been fulfilled or provided for. |
| Condominium sales | — when the amount due on closing is received, the purchaser is entitled to occupancy and undertakes to assume a mortgage for the balance of the purchase price. |
| Land sales | — when all material conditions have been fulfilled, at least 15% of the purchase price has been received, and interest has commenced to accrue at a reasonable rate on the balance due. |

(ii) Construction income

Income from construction contracts is recorded on a percentage of completion basis.

(d) *Depreciation on revenue producing real estate*

During 1977 the Company adopted the sinking fund method of depreciation in order to make the Company's financial statements comparable to others in the industry. Previously, the Company's method assumed a 40 year useful life with an annual depreciation charge of 2.5% of the original cost. The new method of depreciation which has been applied retroactively to the inception of the Company, charges to income amounts which increase annually consisting of fixed annual sums together with interest compounded at the rate of 5% per annum so as to fully depreciate the buildings over their estimated useful lives of 50 years. The effect of the change at December 31, 1976 is to reduce accumulated depreciation by \$5,492,000 with a corresponding increase in deferred income taxes of \$2,746,000 and reduction in deficit of \$2,746,000.

Depreciation on furniture and equipment is provided on a straight-line basis over a 10 year period.

(e) *Deferred income*

- (i) The Company follows the policy of deferring its profit on sale and leaseback and similar transactions as sales occur from time to time. This profit is being taken back into income on a straight-line basis over the term of the leaseback and is shown in the consolidated statement of income as a transfer from deferred income.
- (ii) Where the Company sells buildings and gives cash flow guarantees, the portion of the sales price which is determined to be applicable to such guarantees is not included in gross revenue but is transferred directly to deferred income. These amounts will be included in rental income in future years in amounts which are predetermined at the time of giving such guarantees.

revenue properties company limited

2. Revenue producing real estate

	1977 \$000's	1976 \$000's
Land, buildings and equipment at January 1, less accumulated depreciation of \$2,486,000 (1976; \$2,322,000)	39,769	41,079
Additions during year	11,346	1,986
	<u>51,115</u>	<u>43,065</u>
Less: Disposals at net book value	3,398	2,907
Depreciation expense for the year	<u>436</u>	<u>389</u>
Balance December 31, at cost, less accumulated depreciation of \$2,815,000 (1976; \$2,486,000)	<u>47,281</u>	<u>39,769</u>

The cost of freehold land included at December 31 in the above is \$2,665,000 (1976; \$2,792,000).

3. Construction in progress

	1977 \$000's	1976 \$000's
Revenue producing real estate under construction		
Industrial and commercial	2,028	3,485
Residential	—	8,541
Projects under construction		
Housing	4,877	5,962
Multiple unit residential buildings	<u>4,152</u>	<u>784</u>
	<u>11,057</u>	<u>18,772</u>

4. Land held for and under development

	1977 \$000's	1976 \$000's
Land		
Ontario	23,996	37,394
Quebec	<u>4,085</u>	<u>5,114</u>
	<u>28,081</u>	<u>42,508</u>

Land held for and under development is shown at cost and was increased during the year by interest and other carrying costs of \$3,118,000 (\$4,440,000 in 1976).

During 1977 a large portion of the land assembly in Uxbridge, Ontario was transferred from Land held for and under development to Surplus land (see note 5).

5. Surplus land

The Company has determined that a large part of its land assembly in Uxbridge, Ontario should be sold without development. This portion of the land has been transferred from Land held for and under development to Surplus land as shown on the balance sheet at December 31, 1977. On the basis of an independent appraisal obtained as at June 30, 1977 the Company reduced the book value of the Surplus land by \$3,500,000. This reduction has been charged to income as a provision for loss on real estate. The Company has also decided to cease capitalizing carrying costs and interest on the portion of its general borrowings considered applicable to its investment in surplus lands. The amount of interest and carrying costs which would otherwise have been capitalized was \$1,020,000 in 1977.

6. Accounts and mortgages receivable

	1977 \$000's	1976 \$000's
Mortgages receivable	7,605	7,943
Balances receivable for land sold under agreements of purchase and sale	2,283	2,137
Rents and other receivables	2,542	2,898
Amount due from partner secured by the partner's portion of the partnership assets (see note 22)	1,546	—
	<u>13,976</u>	<u>12,978</u>

Mortgages receivable, including \$3,242,000 on certain properties leased back, bear interest at rates which vary from 5¼ % to 10½ %, weighted average 8% and mature at various dates to 2002 as follows:

	\$000's
1978	523
1979	507
1980	286
1981	228
1982	799
1983 and subsequent	<u>4,787</u>
	7,130
Second mortgages taken back on housing units sold mature at various dates to 1995 (interest rates vary from 6¼ % to 10½ %)	<u>475</u>
	<u>7,605</u>

Substantially all mortgages receivable are pledged against loans payable (see note 10).

revenue properties company limited

7. Other assets

	1977 \$000's	1976 \$000's
Prepaid expenses	1,002	701
Costs recoverable from tenants	420	146
Sundry investments at equity	178	131
Deposit held in trust securing note payable (see note 10)	973	—
	<u>2,573</u>	<u>978</u>

8. Cash

	1977 \$000's	1976 \$000's
Cash and short-term deposits	1,864	3,103
Cash in escrow	163	180
	<u>2,027</u>	<u>3,283</u>

9. Mortgages payable on revenue producing real estate

Mortgages payable bear interest at rates which vary from 6¼ % to 13%, weighted average 9.1% and mature at various dates to 2027 as follows:

	\$000's
1978	1,663
1979	2,044
1980	1,781
1981	1,143
1982	1,565
1983 and subsequent	28,160
	<u>36,356</u>

10. Other loans and mortgages payable

	Secured by				Total \$000's
	Construction, land held for and under development and surplus land \$000's	Mortgages receivable \$000's	Deposit held in trust \$000's	Due to shareholders \$000's	
1978	6,880	672	—	100	7,652
1979	4,014	1,159	—	540	5,713
1980	480	1,687	—	—	2,167
1981	—	—	—	—	—
1982	—	—	—	—	—
1983 and subsequent	5,678	—	973	—	6,651
	<u>17,052</u>	<u>3,518</u>	<u>973</u>	<u>640</u>	<u>22,183</u>
Latest year of maturity	1983	1980	1989	1979	
Fixed interest loans \$000's	9,292	—	—	640	
Range of interest rates	6% - 13%	—	7.7%	12%	
Weighted average interest rate	11.8%	—	7.7%	12%	
Variable interest loans \$000's ..	7,760	3,518	973	—	

Interest rates on these loans vary from 2⁷/₈% to 5% above the minimum lending rate charged by the Canadian chartered banks.

Deposit Held in Trust

The interest rate on the loan payable and the deposit held in trust are the same, but the rate may vary from time to time (see note 7).

Due to shareholders

The amount of \$640,000 due to certain shareholders is secured by a second assignment of certain assets of the Company.

11. Sinking fund debentures

	Maturity Date	Principal \$000's	Payments Due	
			1978 \$000's	1979-88 \$000's
9% Convertible sinking fund debentures				
Series B	June 1, 1981	712	191	521
Series C	February 15, 1981	2,915	781	2,134
Series D	June 15, 1981	2,157	578	1,579
		5,784	1,550	4,234
Add currency adjustment (note (a)(iii) below)		1,268	340	928
		7,052	1,890	5,162
7½ % Convertible subordinated sinking fund debentures				
Series A	June 30, 1988	921	—	921
		<u>7,973</u>	<u>1,890</u>	<u>6,083</u>

revenue properties company limited

(a) 9% Convertible sinking fund debentures

(i) Sinking fund payments

The Company is required to make payments of \$1,550,000 annually to 1980. These payments are proportionately shared by the principal amount of each series outstanding on the October 5 immediately preceding the November 15 sinking fund payment date.

(ii) Convertible features

Each series is subdivided into three separate sub-series. The principal amount of such sub-series (series C and D sub-series being adjusted for the currency relationship noted in (iii) below) may be converted into common shares at any time prior to maturity as shown below:

<u>Sub-Series</u>	<u>Conversion price for one common share</u>
II	\$3.00
III	\$4.00
IV	\$5.00

The above conversion prices are subject to anti-dilution provisions.

(iii) Currency adjustment

Series C and D principal and interest payments, including sinking fund payments, are subject to adjustment (limited to a 25% increase or decrease) depending on any changes in the relative values of the Canadian and Federal Republic of Germany currencies, calculated at the date of or immediately prior to payment.

The maximum adjustment is carried as a deferred charge and is charged to income during the year sinking fund payments and conversions are made. The currency adjustment at December 31, 1977 would have been approximately 93% but for the 25% limitation mentioned above.

(iv) Redemption

The debentures are redeemable on or before maturity, in order of sub-series II to IV, at par plus accrued interest (adjusted for the currency adjustment noted in (iii) above).

(v) Security

These debentures, Series B to D inclusive, rank equally and are secured by fixed and specific charges on certain mortgages receivable, certain revenue producing real estate, certain land held for and under development and by a first floating charge on the assets and undertaking of Revenue Properties Company Limited. Substantially all of these mortgages receivable and real estate also secure various indebtedness which ranks in priority to this charge.

(b) *7½ % Convertible subordinated sinking fund debentures — Series A*

(i) Convertible features

The debentures in the amount of \$921,000 are due June 30, 1988 and are convertible into common shares of the Company on or before June 30 in the years 1978 at \$7.53 per share, 1983 at \$8.91 per share and 1988 at \$10.57 per share. These conversion rates are subject to anti-dilution provisions.

(ii) Sinking fund requirements

Sinking fund payments will not be required until at least 1987.

(iii) Redemption

The debentures are redeemable at par (i) to meet sinking fund requirements, and (ii) at any other time if throughout the 180 days prior to the date on which notice of redemption is given the market price of the common shares has not been less than 125 % of the conversion price then in effect.

(iv) Subordination

These debentures are subordinated to the prior payment in full of the sinking fund debentures referred to above and of certain other prior indebtedness.

(v) Dividend restrictions

There are restrictions under the terms of the Trust Indenture concerning payment of dividends.

12. Bank indebtedness

	1977 \$000's	1976 \$000's
Bank indebtedness, unsecured	1,004	1,618
Bank loans, secured by construction in progress	3,313	3,807
Bank loans secured by balances receivable for land sold under agreements of purchase and sale	1,253	—
Bank loans, see below	6,571	5,883
	<u>12,141</u>	<u>11,308</u>

Bank loans in the amount of \$6,571,000 are secured by fixed and specific charges on certain accounts and mortgages receivable, certain revenue producing real estate, certain land held for and under development, and certain surplus lands. These loans are repayable in United States Eurodollars. The Company is required to purchase sufficient forward exchange contracts to repay the principal amount of such indebtedness. Interest rates on these loans are set half-yearly. These loans are non-revolving with repayments scheduled as follows:

	\$000's
1978	1,332
1979	1,374
1980	2,202
1981	1,663
	<u>6,571</u>

revenue properties company limited

13. Deferred income

<i>Unamortized profit on sale and leaseback and similar transactions</i>	1977 \$000's	1976 \$000's
Balance, January 1	3,069	3,133
Additions through profit on construction sales with lease commitments attached thereto	97	189
Less: Amounts included in income	(197)	(253)
	(100)	(64)
Balance, December 31	2,969	3,069
Approximately \$157,000 of the above balance will be taken into income in 1978.		
<i>Revenue attributed to cash flow guarantees deferred to future years</i>		
Balance, January 1	392	—
Portion of the selling price of residential buildings attributed to cash flow guarantees	574	392
Balance, December 31	966	392
The company will take the above balance into income in predetermined amounts as it is called upon to perform under its guarantees.		
Total Deferred Income	3,935	3,461

14. Capital stock

(a) *Authorized*

291,852.5 6% Cumulative, non-voting second preference shares, par value \$10, redeemable at par.

20,000,000 Common shares without par value.

(b) *Issued and outstanding*

Common shares	<u>Shares</u>	<u>Amount</u>
At December 31, 1977 and 1976	<u>14,146,147</u>	<u>\$27,324,000</u>

(c) *Reserved*

The Company has reserved common shares for possible issue as follows:	<u>No. of Shares</u>
7½ % Convertible subordinated sinking fund debentures (see (i) below)	122,300
Stock options (see (ii) below)	25,000
9% Convertible sinking fund debentures (see (iii) below)	<u>1,666,562</u>
	<u>1,813,862</u>

(i) 7½ % Convertible subordinated sinking fund debentures

The conversion of these debentures at \$7.53 per share would result in the issue of 122,300 common shares. Additional common shares would be reserved if the conversion price were to decline as the result of future share issues at prices below \$7.53 per share (see note 11(b) (i)).

(ii) Stock options

Options to purchase 25,000 common shares are held by two directors and officers as follows:

	<u>Price</u>	<u>No. of Shares</u>
5,000 shares before September 30, 1979	\$0.50	5,000
5,000 shares in each of the five-year periods ending September 19, 1978 to 1981 inclusive	\$0.63	<u>20,000</u>
		<u>25,000</u>

(iii) 9% Convertible sinking fund debentures

The conversion of these debentures, assuming the maximum currency adjustment applicable to Series C and D debentures as set out in note 11(a) (iii) would result in the issue of approximately 1,666,562 common shares.

15. Lease and similar obligations

- (a) The Company is the lessee under a number of cancelable and noncancelable leases. Gross rental expense was \$3,910,000 in 1977 (\$3,085,000 in 1976). The gross income from the sublease of these assets and leasehold improvements attached thereto was \$11,014,000 (\$9,286,000 in 1976).
- (b) The minimum lease commitments of the Company as lessee as of December 31, 1977 for all noncancelable leases and the related rental income from existing subleases of leased assets and leasehold improvements attached thereto are as follows:

	Lease Commitments \$000's	Rental Income \$000's
1978	1,756	4,775
1979	1,663	1,877
1980	1,506	1,447
1981	1,506	1,099
1982	1,506	975
1983-1987	3,141	2,479
1988-1992	2,891	1,982
1993-1997	1,715	1,252
Thereafter	17,349	—

The Company's minimum lease commitments, as above, are exclusive of operating expenses.

Certain lease agreements permit the termination of continuing obligations upon the payment of a specified amount pertaining to each, the total amount of such payments being \$1,492,000. Certain lease agreements contain renewal options.

16. Contingent liabilities

The Company includes in its balance sheet the proportionate share of the assets and liabilities of its unincorporated joint ventures and partnership. The Company is contingently liable for the other participants' portion of the liabilities of these joint ventures and partnership. This contingent liability is approximately \$24,000,000 as at December 31, 1977. Against this contingent liability, the Company has recourse to all of the assets of each joint venture and partnership as well as the assets of the other participants to the extent it is required to pay liabilities in excess of its proportionate share.

17. Legal proceedings

On January 30, 1974, Century City Developments Limited (a subsidiary of the Company) filed a claim in the Federal Court of Canada for additional compensation for approximately 1,100 acres of land expropriated by the Government of Canada in May, 1973 and for injurious affection to its land adjacent thereto.

18. Consolidated statement of income

	1977 \$000's	1976 \$000's
(a) <i>Interest expense</i>		
Debentures — interest	852	1,081
— currency adjustment on principal	340	340
Mortgages	4,865	5,424
Other	1,946	1,358
	<u>8,003</u>	<u>8,203</u>
Less amounts capitalized	<u>3,793</u>	<u>4,756</u>
	<u>4,210</u>	<u>3,447</u>

(b) *Earnings (loss) per share*

Earnings (loss) per share is calculated using the weighted average number of shares outstanding of 14,146,147 in 1977 and 1976.

The conversion of all convertible debentures or the exercise of outstanding options would not have a dilutive effect on earnings per share in 1977 or 1976 and consequently fully diluted earnings per share is not provided.

(c) *Remuneration*

Aggregate direct remuneration paid to directors and senior officers as defined by the Business Corporations Act of Ontario was \$325,500 in 1977 (\$310,673 in 1976).

(d) *Anti-inflation legislation*

The Company is subject, as follows, to the Anti-inflation Act which provides as from October 14, 1975 for the restraint of profit margins, prices, dividends and compensation in Canada:

- (i) The parent company, Revenue Properties Company Limited, is subject to the restraint of dividends.
- (ii) A subsidiary of the Company is subject to the restraint of profit margins, prices and compensation. In principle the profit margin and price controls require that only increases or decreases in certain costs can be reflected in price adjustments.
- (iii) The residential rental operations of the Company's subsidiaries are subject to the rent controls of the various provinces in which they operate.

revenue properties company limited

19. Quarterly financial data (unaudited)

Summarized quarterly financial data for 1977 is as follows:

	Three Months Ended				
	March 31 as previously reported	March 31 as restated	June 30	September 30	December 31
	\$000's	\$000's	\$000's	\$000's	\$000's
Gross revenue	6,974	6,974	6,882	8,163	10,039
Gross profit	1,276	1,438	1,534	1,030	1,328
Net income (loss)	29	53	(1,703)	(178)	(1,007)
Earnings (loss) per share ..	.2¢	.4¢	(12.0¢)	(1.3¢)	(7.1¢)

Summarized quarterly financial data for 1976 is as follows:

As restated for the change in method of depreciation (note 1(d)):

	Three Months Ended			
	March 31 \$000's	June 30 \$000's	September 30 \$000's	December 31 \$000's
Gross revenue	6,166	8,342	8,780	10,971
Gross profit	1,520	1,739	2,045	1,721
Net income	43	57	698	328
Earnings per share	.3¢	.4¢	5.0¢	2.3¢

As previously reported:

Gross revenue	6,166	8,342	8,780	10,971
Gross profit	1,348	1,563	2,068	2,277
Net income (loss)	(43)	(31)	710	410
Earnings (loss) per share ..	(.3¢)	(.2¢)	5.0¢	2.9¢

20. Unused financing commitments

It is the policy of the Company to obtain commitments for mortgage financing on all residential construction projects at or prior to the commencement of construction. The unused portion of these commitments is in excess of the estimated costs to complete all housing units under construction.

21. Income taxes

The income taxes provided in the consolidated statement of income are as follows:

	1977 \$000's	1976 \$000's
Current .	—	29
Deferred	(1,623)	692
	<u>(1,623)</u>	<u>721</u>

Deferred tax expense results from timing differences in the recognition of revenue and expense for tax and financial statement purposes. The sources of these differences and the tax effect of each are as follows:

Capital cost allowance over (under) book depreciation .	(65)	119
Net increase in carrying costs of real estate expensed on tax returns and capitalized on the books . . .	216	78
Prior years' timing differences resulting in tax losses which are applied in the current year	308	833
Net differences resulting from method of deferring income for tax and book purposes	49	(164)
Net differences resulting from inter-company transactions	(447)	—
Operating losses for which future recovery of taxes is provided	(1,889)	(315)
Prior years' timing differences, previously unrecognized	205	141
Deferred tax expense (recovery)	<u>(1,623)</u>	<u>692</u>

The Company does not anticipate any reduction in deferred income taxes payable in any of the succeeding three years.

Expected tax expense differs from actual tax expense as follows:

	1977 \$000's		1976 \$000's	
Computed expected tax expense (recovery)	(2,331)	(50.0%)	854	50.0%
Increase in expected tax expense resulting from:				
— operating loss in subsidiary company for which no future recovery of taxes was provided	687	14.7%	—	—
— other sundry items	21	0.5%	—	—
Decrease in expected tax expense resulting from:				
— non-taxable portion of capital gains	—	—	(133)	(8.6%)
Tax expense (recovery)	<u>(1,623)</u>	<u>(34.8%)</u>	<u>721</u>	<u>41.4%</u>

22. Partnership agreement

In order to replace the existing employment arrangement with Michael G. Wright, effective January 1, 1977 the Company entered into a partnership with M. G. Wright Construction Limited, a corporation of which Mr. Wright is a substantial shareholder. Mr. Wright is a director of Revenue Properties Company Limited and an officer of certain of its subsidiaries. The partnership has acquired from the Company, at fair market value, construction in progress, land held for and under development and two revenue producing buildings and assumed the liabilities attached thereto. Profits and losses of the partnership, which is known as Les Aménagements Revcon — Revcon Developments, are shared 75% to the Company and 25% to M. G. Wright Construction Limited. The effect of this arrangement on the Company's financial statements for the year ended December 31, 1977 is to increase sales of revenue producing real estate, construction and real estate under development by \$2,803,000, which approximates their cost. To the extent that the assets acquired exceed the liabilities assumed the transaction gives rise to an interest bearing account receivable from M. G. Wright Construction Limited, which at December 31, 1977 was \$1,546,000 (see note 6). The partnership will develop, construct and retain or sell real estate in the Province of Quebec.

23. 1977 and 1976 share trading (unaudited)

The following is a summary of trading per share by quarters:

	1977				1976			
	<u>4th</u>	<u>3rd</u>	<u>2nd</u>	<u>1st</u>	<u>4th</u>	<u>3rd</u>	<u>2nd</u>	<u>1st</u>
High	86¢	82¢	77¢	79¢	75¢	77¢	84¢	92¢
Low	65¢	67¢	65¢	65¢	61¢	65¢	70¢	68¢

24. Reclassification of 1976 comparative figures

1976 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1977.

FIVE YEAR SUMMARY OF OPERATIONS

(1973-1976 as restated)

	1977 \$000's	1976 \$000's	1975 \$000's	1974 \$000's	1973 \$000's
Rental operations					
Rental income	12,667	12,171	11,291	10,298	9,927
Property operating expenses	8,621	7,912	7,207	6,847	7,034
Depreciation	436	389	362	321	303
	<u>3,610</u>	<u>3,870</u>	<u>3,722</u>	<u>3,130</u>	<u>2,590</u>
Revenue producing real estate					
Sales	3,475	4,218	4,329	489	—
Cost of sales	<u>3,408</u>	<u>3,143</u>	<u>3,956</u>	<u>506</u>	<u>—</u>
	<u>67</u>	<u>1,075</u>	<u>373</u>	<u>(17)</u>	<u>—</u>
Construction, land held for and under development and surplus land					
Sales	14,513	16,541	4,726	7,729	8,740
Cost of sales	<u>14,263</u>	<u>15,398</u>	<u>4,089</u>	<u>6,605</u>	<u>6,539</u>
	<u>250</u>	<u>1,143</u>	<u>637</u>	<u>1,124</u>	<u>2,201</u>
Other income	<u>1,403</u>	<u>937</u>	<u>1,133</u>	<u>1,166</u>	<u>1,688</u>
Gross profit from operations	5,330	7,025	5,865	5,403	6,479
Interest expense less amounts capitalized ...	4,210	3,447	3,134	2,888	3,060
Net transfer (from)/to deferred income	(100)	(64)	62	(530)	(1,178)
Other expenses	1,956	1,936	1,661	1,648	1,720
Provision for loss on real estate	<u>3,927</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Income (loss) before income taxes and extraordinary item	(4,663)	1,706	1,008	1,397	2,877
Income taxes	<u>(1,623)</u>	<u>721</u>	<u>363</u>	<u>645</u>	<u>1,667</u>
Income (loss) before extraordinary item	(3,040)	985	645	752	1,210
Extraordinary item					
Deferred income tax reduction	205	141	70	33	838
Net income (loss) for the year	<u>(2,835)</u>	<u>1,126</u>	<u>715</u>	<u>785</u>	<u>2,048</u>
Interest capitalized	<u>3,793</u>	<u>4,756</u>	<u>3,675</u>	<u>3,056</u>	<u>2,506</u>
Earnings (loss) per share					
Before extraordinary item	(21.5¢)	7.0¢	4.5¢	5.3¢	9.1¢
After extraordinary item	(20.0¢)	8.0¢	5.0¢	5.5¢	15.4¢
Average number of shares (in thousands)	14,146	14,146	14,146	14,146	13,242

revenue properties company limited

SUMMARY OF PRINCIPAL HOLDINGS

Company's Proportionate Share

DECEMBER 31, 1977

	Number of Residential Units Completed	Approximate Rental Area (sq. ft.)
Revenue producing property owned:		
<i>Industrial</i>		
Toronto, Ontario		765,500
Montreal, Quebec		958,000
Calgary, Alberta		24,000
<i>Commercial and Residential</i>		
Toronto, Ontario		
The Colonnade	158	84,000
Bloor Street	16	10,600
Yonge Street		7,400
Jane Street	773	—
Charles Street		7,000
Oakville, Ontario - Shopping Centre		6,500
Montreal, Quebec		69,900
Saint John, New Brunswick		102,650
Hill Island (Lansdowne), Ontario		50 unit motel
Revenue producing property sold and leased back:		
<i>Residential</i>		
Toronto, Ontario	817	
Halifax, Nova Scotia	240	
Saint John, New Brunswick	152	
<i>Commercial</i>		
Toronto, Ontario		9,200
Halifax, Nova Scotia		141,800
Edmonton, Alberta		69,200
Saint John, New Brunswick		102,650
<i>Industrial</i>		
Toronto, Ontario		647,300
Montreal, Quebec		206,800
	<u>2,156</u>	<u>3,212,500</u>

Land held for and under development

<u>Location</u>	<u>Proposed Use</u>	<u>Approximate Number of Acres</u>	<u>% Company Participation</u>
<i>Ontario</i>			
Acton	Residential	94	75
Ajax	Multiple	294	100
Etobicoke	Residential	5	100
Guelph	Multiple	879	75
Oakville	Residential	50	15
Oakville	Residential	4	37.5
Pickering	Residential	80	100
Port Dover	Commercial & Residential	93	33.3
Simcoe	Residential	15	33.3
Toronto	Commercial	1	50
Uxbridge	Multiple	676	100
Vaughan	Multiple	215	40
Whitchurch — Stouffville	Industrial	114	100
<i>Quebec</i>			
Boucherville	Multiple	306	75
Pointe Claire	Industrial & Commercial	7	75

Surplus land

<i>Ontario</i>			
Uxbridge	Sale without development	3,609	100

Construction in progress

<u>Location</u>	<u>Type of Unit</u>	<u>Number of Units</u>	
<i>Ontario</i>			
Guelph	Housing	59	75
Mississauga	Housing	35	50
Oakville	Housing	10	50
Pickering	Housing	3	100
Etobicoke	Residential rental (lease)	764	50
<i>Quebec</i>			
Boucherville	Housing	48	75
		<u>Square Feet Under Construction</u>	
<i>Ontario</i>			
Guelph	Shopping Centre	13,000	100
Toronto	Commercial	6,100	100
<i>Quebec</i>			
Montreal	Industrial & Commercial	67,000	75

